LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7024
BILL NUMBER: HB 1287

NOTE PREPARED: Jan 30, 2015
BILL AMENDED: Jan 29, 2015

SUBJECT: Financial Institutions and Trade Regulation.

FIRST AUTHOR: Rep. Burton
FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED:
GENERAL
X DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: The bill makes various changes to the laws concerning: (1) first lien mortgage lenders; (2) persons licensed under the Uniform Consumer Credit Code; (3) rental purchase agreements; (4) debt management companies; (5) financial institutions; (6) pawnbrokers; (7) money transmitters; and (8) check cashers. It repeals a provision providing an alternative regular reserve formula for certain credit unions.

Effective Date: July 1, 2015.

Explanation of State Expenditures: *Department of Financial Institutions (DFI):* The provisions in the bill would result in additional administrative costs for the DFI. Any expenditure will be offset to the extent that additional fees are collected by the DFI as allowed by the provisions of the bill. The DFI is funded through money deposited into the Financial Institutions Fund, which is a dedicated fund that receives fees and penalties collected under I.C. 28-1. The money from the fund is appropriated to the DFI. The FY 2015 appropriation to the DFI is $7.44 M.

Securities Division, Secretary of State (SOS): The bill provides that the DFI may cooperate with the Securities Division to conduct certain examinations. This function could be performed within the Securities Division's current resources.

Explanation of State Revenues: *Examination Fees:* The bill requires that if a person licensed as a creditor in subordinate lien mortgage transactions also engages in the loan brokerage business, the person's loan brokerage business is subject to the laws governing loan brokers. It requires the examination and, if necessary, investigation of loan broker business transactions to ensure persons engaging in the transactions are licensed. The bill provides that DFI may examine the business entity and use the services of the examiners at the Securities Division of the Secretary of State. Currently, DFI charges $80 per hour in examination fees. In Indiana, there are approximately 6,900 licensed mortgage loan originators (individuals who engage in mortgage loan origination activities) employed by 332 licensed first lien mortgage lenders, 88 licensed subordinate lien mortgage lenders, and credit union service organizations which are exempt from licensing. Assuming each mortgage loan originator, first lien mortgage lender, and subordinate lien mortgage lender is examined, revenues to the Financial Institutions Fund may increase by $0.6 M. The actual revenue gain may be less than estimated to the extent that every mortgage loan originator, first lien mortgage lender, and subordinate lien mortgage lender is not examined.

Delinquent Fees: Current law provides investigative authority to the DFI as it relates to administration of: (1) first lien mortgage lenders; (2) persons licensed under the Uniform Consumer Credit Code; (3) rental purchase agreements; (4) debt management companies; (5) financial institutions; (6) pawnbrokers; (7) money transmitters; and (8) check cashers. Current law also provides that the licensee or the person being investigated shall pay the cost of investigation. This bill requires the licensee or person to pay the cost within 60 days of receiving the assessment from the DFI. It allows DFI to impose late fees for each day that the assessed costs are unpaid after the 60-day period. Currently, DFI charges a $20 late fee per day.

(Revised) *Small Loans:* The bill requires a licensed entity making regular consumer loans to obtain a separate license to engage in the business of small loans (payday loans). It also makes changes to license requirements for subordinate lien mortgage transactions. For purposes of the provisions in the Uniform Consumer Credit Code concerning small loans: (1) specifies that a person "regularly engages" in certain activities with respect to small loans if the person: (A) has performed those activities at least one time in the preceding calendar year; or (B) performs or will perform those activities at least one time in the current calendar year. These changes could impact the initial license fee and renewal fee collected by the DFI by an indeterminable amount.

Other Provisions: For the purposes of the statute related to first lien mortgage lending, Uniform Consumer Credit Code, and financial institutions, the bill updates the reference to federal law as effective beginning December 31, 2014, instead of December 31, 2013. The bill changes the applicable reference base index used to adjust statutory debt levels for purposes of security interests in consumer credit sales and for purposes of installment payment schedules for consumer loans. The applicable reference base index changed from the October 1992 index to the October 2012 index for adjusting the statutory amount of $4,000 in both cases. It makes changes to the laws governing the credit unions' accounting methods. It limits the deferral charges for consumer loans and consumer credit sale purposes to the lesser of: (1) 36%; or (2) the rate stated to the debtor on the disclosure. Finally, the bill makes other technical changes that would impact the business entities involved in financial transactions. These provisions are not estimated to have any fiscal impact.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of Financial Institutions; Securities Division, Secretary of State.

Local Agencies Affected:

Information Sources: DFI Fee Schedule, http://in.gov/dfi/files/Consumer_Credit_2014.pdf;
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